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POLICY

PROGRAMME IMPLEMENTATION

IMPLEMENTATION OF DECISIONS ADOPTED BY THE GOVERNING COUNCIL AT ITS PREVIOUS SESSIONS

Micro-capital grants

Report of the Administrator

SUMMARY

The present report responds to a request by the Governing Council to describe in more detail the proposal made by the Administrator for the creation of a special facility for micro-capital grants to poor groups, or Microfund. The report describes the experience of UNDP with micro-capital grants, provides a justification for the Microfund as an important element of a poverty alleviation strategy, and describes the features of this proposed facility.

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I. INTRODUCTION

1. In his report to the Council on the role of the United Nations Development Programme (UNDP) in the 1990s (DP/1989/14), the Administrator put forward a proposal for a new special fund for micro-capital grants, or Microfund. This facility would enable UNDP to provide small capital grants and loans at the micro-level to fill an important resource gap as a complement to its efforts at mobilizing underutilized human potential - the poor. Establishing the facility coincides with a growing recognition of the importance of the human factor in national development, and an overall rise in demand from UNDP for small capital grants and loans at the micro-level (below the United Nations Capital Development Fund (UNCDF) minimum of $200,000).

2. By its resolution 89/21 of 30 June 1989, the Governing Council, in considering the Administrator's proposal, decided to defer consideration of the Microfund to its thirty-seventh session. In the interim, the Council requested the Administrator to prepare a report containing information, inter alia, on ongoing projects of a similar nature supported by the UNDP, including the experience, advantages and disadvantages of using non-governmental organizations (NGOs) in this field and the experience of the United Nations Volunteers (UNV) programme. The report was also to contain information on the administrative and financial arrangements associated with the Microfund which might be needed for this purpose.

3. In response to the resolution of the Governing Council, UNDP has undertaken the necessary investigations to provide the information requested. A working paper was commissioned to determine the elements of a UNDP Microfund. Investigations focused on the experiences of UNDP, of the specialized agencies and other organizations of the United Nations system and of bilateral donors; on UNDP capabilities, and on policy guidelines proposed for the consideration of the thirty-seventh session of the Council. In addition, all resident representatives were requested to provide their views and the views of their government counterparts and potential beneficiaries on the creation of a Microfund, and to estimate the actual demand for its use in the country to which the resident representative was assigned.

II. BACKGROUND

4. It is anticipated that the 1990s will be a decade in which developing countries will require greater resources for development, a decade that will also see a rapidly evolving reorientation of the needs for development resources. Within this atmosphere of change, there lies a growing demand for attention aimed at the poor. It is increasingly being recognized that the millions of poor people who make a living through small-scale petty businesses and services are in fact, part of the integrated whole, contributing in a dynamic way towards the growth and sustainability of many economies in the developing world. Beyond their economic contribution, the poor deserve an opportunity - as stated in the Human Development Report 1990 1/ - to enlarge their options. Often it is a small "spark" - a pump, a grinding mill - obtained through self-help initiatives, which can lead to the realization that improvement of their situation is possible, and can encourage them on to larger, bolder endeavours.

5. The poor have a demonstrated ability to undertake self-help initiatives. Their day-to-day survival depends on the small profits generated from the activities they engage in. The quality of their livelihood, therefore, is directly related to their capacity to carry out and benefit from services or profit-making ventures. The requirements for building this capacity are typically very small amounts of capital in the form of materials, cash or credit: a farmer may need fertilizer, a vendor may need $100 in start-up capital or a community may need a clinic or access to clean water.

6. Governments and financial institutions have tried to support the poor in their endeavours, but have found that reaching them is expensive, unprofitable and risky using traditional channels of capital assistance. The majority of the schemes attempted entail direct credit assistance, are done through either national or commercial credit institutions and often are set up with the financial backing of large multilateral financial institutions. For the most part, however, such large credit schemes are directed at small-scale and medium-scale industries in the formal commercial sector, and rarely target the lower level "micro-enterprise" entrepreneur. The process of obtaining credit often involves a certain degree of literacy, complicated paperwork, minimum credit allotment ceilings and collateral, all of which inhibit poor peoples' ability to participate. The poor are then left to deal with informal capital lenders who provide needed cash and materials at exorbitant lending rates. Apart from credit schemes, grant assistance for social infrastructure or capital inputs tends to be extremely scarce in relation to the demand.

7. Many donor Governments and international NGOs support grass-roots activities and micro-enterprises. A few bilateral donors have been highly active in this sector. For example, the contributions of the United States Agency for International Development (USAID) to research and development, support to NGOs in the United States of America, and direct assistance to micro-enterprises amounts to roughly $200 million per year. For the fiscal year 1988, the United States earmarked $50 million for direct micro-enterprise assistance. Canada, Norway, Sweden and Switzerland also have placed considerable emphasis on support to micro-enterprise and grass-roots initiatives, each having integrated programmes comprising over $100 million in assistance annually. Like the United States, much of this assistance is channelled through co-operating NGOs with bases in the donor country. Other major donors involved in this field include France, the Federal Republic of Germany and the Netherlands.

8. Prevalent forms of support to the poor include bilateral "Ambassador funds" and financial assistance from international NGOs that are targeted directly at supporting grass-root initiatives. There are also bilateral donors which, as will be described later in more detail, co-finance micro-enterprise projects under the UNDP umbrella. These efforts have proven to be effective and, in some countries, may be the only resources that ultimately reach the micro-level.

9. While bilateral and NGO support to grass-roots initiatives and micro-enterprises is laudable and relatively effective, limitations do exist. One common constraint is access - some Ambassador funds and smaller donors with limited means of direct communication with poor groups may find it difficult to solicit

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worthy proposals. The new role of the UNDP field offices could improve access for other donors, serving as a bank of information on feasible micro-operations. Another constraint is the proliferation of often complex procedures which may develop when many donors are active in this field in a particular country.

10. Small-scale capital assistance is incorporated into many projects supported by the specialized agencies and organizations of the United Nations system, its special funds and programmes. Apart from UNDP and its associated funds, large institutions such as the International Fund for Agricultural Development (IFAD) provide credit assistance to such enterprises as the Mudzi Fund in Malawi, the Agriculture Development Bank in Nepal, or the Grameen Bank of Bangladesh. Smaller-scale operations of both a grant and credit nature are being undertaken by the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA), the International Labour Organisation (ILO) and the Food and Agriculture Organization of the United Nations (FAO) under programmes funded by trusts. Each of these agencies and funds provides small-scale capital assistance inputs, either as entire projects or through components of integrated projects, with the aim of channelling this assistance into the hands of the poor.

11. With or without the limitations of existing national, bilateral, NGO and United Nations schemes, the bottom line is that millions of individuals need assistance of a magnitude many times over what is at present available. The 1988 International Conference on Microenterprises, held at Washington, D.C., from 6 to 9 June 1988, referred to the informal sector as "the major development agent for employment creation, income generation and social stabilization in the next decade". Substantial room exists for expanding the attention and inputs of developing countries and donor Governments to the millions of subsistence and small farmers and the rural and urban micro-entrepreneurs who make up this sector. Room also exists for establishing an operating framework for systematic access to the poor which, once set up, developing country Governments and their donors could take advantage of if desired.

12. The UNDP has been enjoined under General Assembly resolution 44/211 of 22 December 1989 to emphasize the human dimension of development, and in particular, the need to reach the poorest and most vulnerables section of societies. In its resolution, the General Assembly stressed the need for maximum participation of populations, local communities and organizations, including national NGOs, in the development process. The General Assembly also encouraged, at the request of Governments, the promotion of participation at the grass-roots level and in the productive sectors within the operational activities of the United Nations system. In view of the above, a new, innovative approach by UNDP is called for which would bring the poor directly into the development process.

13. UNDP is well suited to play a role in this area of development assistance. As will be pointed out in the following paragraphs, UNDP and its executing agency partners have accumulated much experience with micro-capital grants. In addition, the UNDP field offices maintain relations with governmental and non-governmental agencies at the country level. Most importantly, many field offices have established links and relations with numerous grass-roots organizations, through project personnel working with communities in the field. By building on these

advantages, UNDP would be able to respond directly and effectively to government requests for assistance in promoting human development and the alleviation of poverty.

III. ONGOING ACTIVITIES OF THE UNITED NATIONS DEVELOPMENT PROGRAMME

14. UNDP is mainly involved in extending small-scale capital assistance in three ways:

(a) Through projects supported by UNCDF capital investments;

(b) Through small-scale, free-standing programmes utilizing NGOs and grass-roots organizations and UNVs, including their domestic development service specialists (DDS);

(c) Through projects supported by UNDP that are primarily technical assistance but contain a relatively small component for direct capital assistance, or more commonly, credit facilities such as revolving or guaranteed loan schemes.

15. There are basically three ways by which capital assistance is channelled to the micro-level: (a) using formal financial institutions as the implementing agency; (b) using NGOs and organized grass-roots institutions; and (c) using a partnership between financial and non-financial institutions such as a government department, a bank and a grass-roots organization. Funds may be provided by UNDP as a grant to a Government, but can then be channelled by those agencies on a grant or credit basis to recipients.

16. The most extensive experience of UNDP in the area of capital assistance has been through UNCDF. In its 20 years of existence, the accumulated project portfolio of UNCDF, in terms of funds committed, amounts to $460 million. About 25 per cent has been for projects that included credit components, and, of these projects, approximately $31 million has been allocated as the credit itself. Beyond credit schemes, the major part of UNCDF funds takes the form of smaller-scale grant capital assistance for infrastructure development and the provision of equipment.

17. The material inputs provided under UNCDF projects have provided disadvantaged people with direct benefits for improving their quality of life and ultimately their capacity to contribute in a more meaningful way towards the overall economic growth of national economies. As a typical example, a UNCDF-supported national agricultural credit scheme in Bhutan during the period 1981-1986 provided about 6,000 farmers with about 8,000 loans (average size $160) to purchase seeds, fertilizers and tools. The scheme achieved an 80 per cent recovery rate. Other projects combine UNCDF support with technical assistance from the country's indicative planning figure (IPF). A typical jointly funded project aims to increase fish production in Guinea by providing fishermen with credit facilities for the purchase of fishing equipment and vehicles to transport fish to the local markets. Of the $3 million allocated to the project, approximately $476,000 is contributed by UNDP for technical assistance, and the balance is contributed by UNCDF, with 75 per cent for material inputs and 25 per cent for the credit facility.

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18. Outside of UNCDF, a number of micro-level capital assistance projects have been funded solely by UNDP. Consistent with the primary mandate of UNDP, the principle objectives of these projects are to set up and strengthen institutional channels which provide a country with a sustainable capacity to reach grass-root groups. There are fewer projects in this category than those being carried out by UNDP in co-operation with UNCDF, and, typically, the budgets are much smaller.

19. The best examples of IPF-funded micro-capital assistance are the "support to grass-roots initiatives" projects - Fonds d'appui aux initiatives de base (FAIB) - in Benin, Mali, Senegal, Togo and elsewhere. In Benin, for example, a management committee has been formed at the national level to supervise the overall implementation of the project; the committee consists of senior government officials, the resident representative, representatives from the World Food Programme (WFP), the national and international NGO community, a bilateral donor and a UNV. The committee's supervision is channelled through the regional and subregional offices of the Planning Ministry and ultimately to village development committees at the community level. In this decentralized set-up, the village committees are responsible for implementing and monitoring their own individual projects funded under the overall project. The activities are mostly oriented towards agriculture and the generation of income, and are identified and designed by the local community members themselves. Small-scale grants and loans are channelled to the people through this structure. Thus far, in Benin, nearly 150 village groups have received assistance to develop their entrepreneurial endeavours. In addition, the Trickle-Up Programme (TUP) grants ($100), another UNDP-supported programme, have been channelled through the same network to some 300 smaller groups for income-generating activities .

20. Apart from the FAIB schemes, the most common form of direct UNDP small-scale capital assistance is the provision of technical assistance in the form of training, consultancies, advisory services and equipment, which make up the bulk of assistance, plus a small component for credit assistance. Projects of the United Nations Development Fund for Women (UNIFEM) also fall within this category. Typically, technical assistance will be provided for infrastructure development or training in skill work, and a small amount of capital funding will be set aside for trainees to turn to, once entrepreneurial skills have been developed. These funds are generally channelled through financial institutions or NGOs. A survey of field offices, described in more detail below, obtained reports of 37 projects funded by IPF or the Special Measures Fund for Least Developed Countries (SMF/LDC) which were ongoing in 1989 with micro-project components. The total UNDP contribution averaged $882,000 per project, while the micro-project component averaged $144,000, or 16 per cent of the total.

21. An important aspect of some UNDP-supported projects is the use of UNDP/IPF funds to establish channels which enable other donors to reach micro-entrepreneurs. A notable example of this form of assistance occurred in Guatemala, where the Government used UNDP (first with IPF money and later with Netherlands funds in trust) to set up the institutional framework for channelling funds to the poorest segment of the population. In three years the programme has provided access to credit to 10,500 micro-entrepreneurs. In addition to generating credit and establishing delivery modalities, the project attracted a total of $19 million from international organizations and bilateral donors.

IV. EXPERIENCE WITH NON-GOVERNMENTAL ORGANIZATIONS AND UNITED NATIONS VOLUNTEERS

A. Non-governmental organizations

22. In addition to the above, UNDP works with NGOs to direct micro-capital assistance towards grass-roots initiatives. The Partners in Development Programme (PDP) of the Division for Non-Governmental Organizations of UNDP, established in mid-1988, was organized to build on the increasing acceptance of the effective role that NGOs can play as partners in promoting and carrying out development activities centred on people. To get the programme off the ground, $3 million was allocated from Special Programme Resources (SPR) for a three-year period. Additional assistance from SMF/LDC came later, enabling the programme to administer $1.5 million annually through 1991. So far 99 per cent of the funds allocated have been used in 50 countries for community-based development initiatives, and in certain cases to strengthen the capacity of local NGOs and grass-roots organizations.

23. Under PDP, grant awards totalling $25,000 per year are provided to support NGO grass-roots development activities. In most countries, resident representatives and government counterparts have formed project screening committees along with other NGO and bilateral partners to oversee the granting of the awards. A total of 104 NGO projects was funded in 1988; in 1989, the total number of awards rose to 167, ranging in size from less than $1,000 to the full country allocation of $25,000. More than 270 projects have been supported to date; about 80 per cent have promoted community-based development and the rest have involved strengthening NGO associations, NGOs and grass-roots organizations. Of the projects focusing on the community, approximately 70 per cent involve income-generating activities (micro-enterprises) or skills training for self-employment.

24. The UNDP also supports the Africa 2000 Network, a project initiated in 1989 to promote ecologically sustainable development in Africa. Under this programme, technical assistance and grant funds are provided to NGOs and grass-roots organizations for community-based activities to preserve the environment or further development in ecologically sustainable ways. The programme is becoming operational in eight countries, with preparatory missions laying the groundwork for its extension to several more. Like PDP, the Africa 2000 Network is administered in a decentralized way. In each country where the project operates, a national of the country serves as co-ordinator of the Network programme, working from a base at an NGO or in the UNDP field office. Projects proposed for Network awards are screened by national selection committees which include representatives from the NGO community, UNDP and the Government. Awards of up to $50,000 are granted. Approximately 30 projects have been funded to date.

25. Early feedback provides a few preliminary indications concerning the success of the attempt by UNDP to channel assistance to and through NGO bodies. On the positive side, the NGOs have demonstrated that they are, for the most part, able to get the money to the intended recipients in a timely fashion, and are able to monitor the recipients' implementation of the activities. The NGOs have also demonstrated that they are willing and able to work with other intermediaries such as banks, other NGOs, and government bodies. One of the positive features of NGOs

in general is that they often operate in a highly flexible manner in terms of responding to local community needs. Because of their often informal and voluntary nature, NGOs tend to be more willing than other partners in development to look more closely at the needs of local people, and to try to determine how their organization could respond to those needs.

26. Some negative aspects of working with NGOs have on occasion been a lack of strong administrative backstopping, and sometimes a correspondingly poor reporting performance. As with any partner in development, the key to working successfully with NGOs appears to be to make a careful selection of the best one for the job, and to find ways to overcome its limitations. The Division for Non-governmental Organizations of UNDP, through such modalities as projects for strengthening NGOs, financed under PDP (see above), is actively addressing this issue.

B. United Nations Volunteers

27. The UNVs are normally placed as specialists within the context of UNDP-supported projects. In many cases, UNV specialists, in addition to their technical role, act as field level agents for administering capital inputs provided either through or outside the project they are attached to. In some cases, like the FAIB projects mentioned above, UNVs are specifically assigned to help oversee the channelling and monitoring of small-scale capital resources. In a recent study conducted by UNV of a sample of 15 countries where a total of 150 UNVs were working, 90 per cent of UNVs were in some way helping to channel and monitor micro-capital funds. These funds originated from United Nations sources such as country IPFs, UNIFEM or PDP, from bilateral funds, or from funds generated by local communities.

28. In addition to the mainstream programme of UNV, small-scale capital assistance is channelled through its network of volunteers. UNV also implements its Domestic Development Services (DDS) Programme through regional projects now operating in the Africa and Asia and the Pacific areas. Under the programme, UNV assigns a DDS field worker from the local NGO of one country within the region to live and work within local communities of another country for periods of two years or longer. At present, approximately 250 DDS field workers are serving world wide. In this way, the DDS programme promotes grass-roots development initiatives through an emphasis on technical co-operation among developing countries (TCDC), the participation of local people, appropriate technology and utilization of local community resources.

29. Owing to the self-help nature of the programme, and to the limited budgets of the regional projects, DDS field workers and the regular UNV specialists who oversee the programmes are constantly seeking out sources of small-scale capital resources to channel to people in the communities where they work. With the presence of the volunteers with United Nations "status" and backing, communities often are able to rally small amounts of capital from various bilateral and international NGO donors. Such a programme has a high potential for easily channelling small amounts of seed money directly to poor people. More often than not, however, the funds are unavailable and/or have any number of restrictions tied to them.

30. In some countries, UNV and the UNDP field office have developed innovative means of establishing small, micro-capital assistance funds to support the community where field workers are stationed and/or to support community development initiatives being implemented by DDS grass-roots organizations. In Sri Lanka, for instance, a DDS project fund was established about six years ago. Donors were petitioned to provide the necessary seed money to get it started, and with their support and partial matching funds from the Government the fund got off to a good start. Over the years, the Sri Lankan DDS Project Fund has supported dozens of small-scale, income generating and community service support activities through inputs provided on a grant or partial loan basis. Examples of projects supported are community goat-rearing farms, cottage industries such as bread baking and blacksmithing, and family managed community stores. The support per project falls in the range of $100 to $2,500.

V. FINDINGS FROM EXPERIENCE TO CONSIDER IN DESIGNING A MICROFUND

31. The experiences of the organizations and bodies above reveal several basic characteristics to be incorporated in the design of a Microfund. Essentially the main attributes of successful micro-capital projects appear to be the active participation of the community, and a highly decentralized approach towards overall implementation.

32. The PDP, for example, has made possible quick and easy delivery of money to the poor through a highly decentralized programming framework. The project screening committees at the country level are in a good position to determine which NGOs to work with and which activities to support. The application and reporting procedures to which the recipient NGOs must adhere are simplified and standardized, making it easy for NGOs to use them.

33. Local level implementation of small-scale credit schemes has been shown to be best handled by traditional village councils or by the creation of village development committees. In the Bhutan scheme, UNCDF and the Government used a traditional power base structure which entailed a chain of command from the King, through the village, to the poor rural farmer. The traditional structure of this scheme allowed for strict adherence to the obligations of the credit scheme. Schemes which involve formal financial intermediaries at the grass-roots level tend to be more complicated to implement and monitor.

34. For projects supported by UNV, a UNV or DDS specialist provides a continuing contribution in assisting the community as an advisory resource. The UNVs are in an ideal position to assist in small-scale capital assistance activities when they are placed in positions having direct and continual contact with people at the village or urban community level. At the same time, UNVs usually have the necessary communication skills to liaise with people and organizations outside the community. In this way they are able to assist people in negotiating with banks, government departments and funding organizations. As UNDP moves towards more extensive use of national professional personnel, many more similar opportunities are expected to emerge.

35. Successful cases of micro-capital assistance require community level design and implementation of such activities. The notion of "ownership" by those receiving the resources has proven to be an effective tool. In addition to financial assistance, organization of local groups, group meetings and community level workshops should be undertaken simultaneously. These meetings and workshops provide a forum for discussion of topics relating to the members of the groups, and spark new initiatives for expanded community participation. Often the opportunity to provide such organization and training comes from a technical assistance project prepared as a companion to the micro-capital grant.

36. Experience with micro-capital credit schemes indicates that special care should be exercised in the design and implementation of credit programmes. Work done in the context of a recent UNDP Policy Discussion Paper entitled Credit for the Poor 2/ indicates that such projects sometimes suffered from crippling default rates, soaring administrative costs and distressing delays in the delivery of services. However, the report also found many cases of successful micro-lending projects supported by UNDP, and it described the particular design criteria which could be followed.

37. As a final caution, micro-capital programmes should not grow beyond the capacity to administer them. As can be seen, administration of such a scheme entails complexities. Where projects have expanded, such as in some of the earlier FAIB projects, administrative and overhead expenses have risen beyond the original estimates. As far as the proposed Microfund is concerned, it would be prudent to ensure a careful balance between the size of the fund and the effort required to administer it effectively.

VI. MICROFUND OBJECTIVES, OPERATING CRITERIA AND ADMINISTRATIVE AND OTHER ARRANGEMENTS

38. Previous sections of the present report offer a number of arguments supporting the reasoning and justification behind the establishment of a UNDP Microfund. In addition to the extent of the demand for such assistance mentioned in earlier paragraphs, UNDP and the specialized agencies executing UNDP projects are at present very much involved in micro-capital assistance, albeit not on a large scale. The successful activities have demonstrated that such assistance is useful, can reach the people intended to be reached and can be done through the present policies and channelling mechanisms which govern the UNDP umbrella of development assistance. In addition, far from competing with other donor funds, UNDP-supported schemes have been found to result in a bank of sound project proposals for other donors to draw on as well.

39. Given the extent of the demand, the emphasis in General Assembly resolution 44/211, the ongoing experience within the UNDP umbrella, and the unique advantages in terms of the ability of UNDP to promote, manage and channel micro-capital assistance, a justification clearly exists for UNDP to be more active in regard to this type of assistance. As another tool of development assistance available within the specialized agencies and other entities of the United Nations system, the Microfund would enable UNDP to address a broader range of needs. Beyond

creating a means of directing small amounts of vital assistance to a large number of poor people, a Microfund would support grass-roots initiatives and promote popular participation. In this way, it would strengthen the poor's capacity to obtain and effectively utilize capital coming from all sources, enabling them in the process.

40. In order to present a sound case for establishing the Microfund, and to ensure that it is designed to meet actual needs, inquiries were made with all UNDP field offices to obtain the resident representatives' views on possible criteria, and to estimate the actual demand for its use. Ninety-five out of 112 field offices, or 85 per cent, responded to the inquiry. Responses were very encouraging, and indicated a relative familiarity with micro-capital projects, as well as great interest in and a demand for the Microfund. Of the 95 field offices, 58 indicated they administered a total of 194 projects with micro-capital elements in 1989. Fifty-five field offices indicated a "very high" level of potential interest for a Microfund; 28 a "high" level of interest; only 7 indicated a "not very high" level of interest (5 did not answer the question). Together, the field offices indicated that they could utilize a total of $15 million in the first 12-month period of Microfund's establishment. Sixty-nine offices indicated that they could implement the Microfund with no additional staff, and 14 indicated otherwise (12 did not answer the question). Field offices also provided their views and the views of government and other interested parties on the creation of a Microfund. A table indicating responses is attached as an annex to the present report.

41. Taking the above considerations into account, the following would be the most appropriate elements of a UNDP Microfund:

A. Objectives, scope, and operating criteria

42. The purpose of a Microfund would be to have a facility wherein small amounts of capital assistance, in the form of grants or loans, could be channelled to local communities and organized groups - or, in other words, to put capital into the hands of poor people.

43. More specifically, the Microfund would be a simple, quick-disbursing facility for financing micro-projects initiated, prepared and managed by low-income beneficiary groups. It would be used for either grant or credit schemes. It could finance self-contained small capital projects or capital components of larger UNDP-supported agency, government or OPS-executed projects. It could be a funding source for micro-project initiatives such as the Partners in Development Programme, FAIB, and other similar efforts, or it could be used for freestanding initiatives such as are currently being promoted by DDS using bilateral funds.

44. Funding criteria would be limited to the following:

(a) The micro-project should be for a capital investment, either of a productive or social infrastructure nature. Examples are a hand pump, a grinding mill, a production credit loan or a community health post;

(b) It should be for a group of low-income beneficiaries, such as a community development committee. Each country would apply its own definition for a "low-income beneficiary group";

(c) Projects should have a demonstrated need, cost effective, measurable impact and beneficiary contribution and/or participation. These elements should be described in the submission document;

(d) The funding request should not exceed $20,000 for each project.

45. A Microfund would be most successful under conditions which would enable it to respond to people's needs quickly, broadly, and with a large degree of flexibility. Therefore, the Microfund would be fully decentralized, have simplified application procedures, minimum paperwork requirements and solid local supervision and monitoring. The most important characteristic, which extends a degree of trust to the recipients, is that schemes should be identified and designed at the community level by the people themselves.

46. The Microfund could be available through three specific channels, each having different administrative characteristics. The first would be as free-standing proposals from a community, prepared and implemented with the help on a voluntary basis of a community leader, a government officer, a national or international project officer or a UNV/DDS specialist. Under this option, the community itself would be responsible for project administration. The second would be for proposals generated with NGO involvement, where the NGO would accept responsibility for project administration. The third would be micro-capital elements of larger UNDP-supported projects, where the project management would be responsible for project implementation.

47. Requests for funding would be submitted to a review committee established under the UNDP resident representative. As noted earlier, UNDP has had substantial experience in managing similar funds at the field level through the establishment of such a committee made up of the resident representative, professionals from the private and informal sectors, and, occasionally, NGO and government officials. This committee oversees the operation of the projects on a periodic basis; bi-monthly meetings with representatives at the local level, such as local NGOs, grass-root community groups or local bank intermediaries. With the Microfund, a similar review committee would be set up, or an existing one used, which would be responsible for approving funding for individual micro-projects. The committee would also review submissions, appraise projects and monitor progress. A field office professional, a UNV or a project professional would act as the committee secretary.

48. Oversight and monitoring of the projects financed from the Microfund would follow several alternatives. An NGO could be contracted for this purpose; government agencies could be utilized; they could be included together with the microfund component itself within a project; or they could be left to the secretary of the review committee. Ultimately, details of the local level operating arrangements for the Microfund would be left to each field office. In this connection, several resident representatives, in addition to responding to

questions, provided thoughtful information on experiences with micro-projects within their country programmes, guidelines in use for such projects and examples of micro-project formats. If the Microfund becomes a reality, these individual experiences would be shared among all field offices, so that they could be studied in determining how best to structure and implement a Microfund in those countries wishing to have the facility.

49. At headquarters level, the Microfund could be supervised by a small committee of representatives of the key units involved in micro-capital activities meeting periodically to review the overall progress and impact of the fund, and to authorize release of Microfund tranches to interested countries. In keeping the responsibility for implementation, monitoring, management and accountability of the proposed Microfund at the local level, and by applying a review committee strategy, the monitoring and accountability at the headquarters level diminishes to that of periodic and global accountability, as do administrative and overhead costs.

B. Administrative, funding and accounting arrangements

50. Keeping administrative and overhead costs low is an important consideration. If the proposed Microfund requires a substantial amount of its funds for its own administration, it would probably not be cost effective because of the small-scale nature of its operations. The proposed Microfund should, as far as possible, be incorporated into the existing administrative network of UNDP. In essence, a Microfund should be an additional resource within the total UNDP technical assistance portfolio, much in the same way as inputs such as personnel, training or equipment are perceived.

51. Administratively, therefore, the Microfund would be fully decentralized within UNDP. The headquarters committee would be responsible for monitoring the programme's overall funding level, progress and general impact. One staff member would act as secretary to the committee at headquarters, and one staff member would be earmarked for this purpose in field offices. Administrative responsibility for micro-project implementation would be delegated to the recipient group, with periodic reporting and accounting to the local review committee. To finance the minimal overhead expenses needed by field offices and headquarters for administrative costs (including, if justified, a national specialist for selected field offices), travel and project reviews, an appropriate percentage of the fund would be earmarked for this purpose.

52. The Microfund would be established initially for a fixed amount. Based on the demand calculations received from field offices, a $25 million allocation would be appropriate for an initial two-and-a-half-year period. A field office, on confirmation of the establishment of a review committee, with a description of its membership and working arrangements, would be allocated an amount requested by them up to $100,000. A second tranche of up to $100,000 would be released when the first tranche was committed, then a third tranche after that and so on. Replenishment of the Microfund itself for the remainder of the fifth cycle would be based on an evaluation of progress after two years of operation. Individual countries would establish their eventual funding level of operations, based on the limit of the capacity of the field office to administer the fund.

53. In response to repeated urging by the Governing Council, the Administrator seeks to increase substantially the focus on the alleviation of poverty, as well as popular participation in the development process. For this purpose, SPR, SMF/LDC and other extrabudgetary resources would be used as vehicles. The Administrator considers the Microfund to be an excellent potential instrument for realizing this objective. Funds from any or all of the above sources could be earmarked to establish the new facility. The Microfund would be administered within the existing structures of UNDP. This would ensure that the facility is perceived as an additional tool available within the UNDP portfolio, reinforcing the other forms of assistance provided by UNDP for strengthening national capacity.

54. The Microfund would be intended for promoting a particular approach in countries desiring to find new ways to alleviate poverty. It would have two purposes: (a) to serve as seed money for attracting other resources locally, both from IPF and from other donors; and (b) to institutionalize a channel for micro-capital grants to reach the poor. As noted above, several developing countries have already gained some experience with the concept, and some have developed the requisite institutional arrangements. Priority for the allocation of the Microfund itself would therefore be given to countries which were yet to have institutional arrangements in place. The Microfund, when successful, would be phased out, when these arrangements were established in all developing countries wishing to adopt such an approach.

55. A fund of this nature requires decentralized responsibility and accountability for its implementation. At the community level, the justification for a Microfund rests on the demand expressed by local community groups, and, therefore, the people representing these groups should be primarily responsible for the implementation and accountability of such a fund. Support can be provided by a recognized community leader, a national or international project adviser, a government office, a local NGO or a UNV/DDS specialist.

56. At the level of the field office, the resident representative would be given approval authority for releasing the funds in local currency, and would also be held accountable for their use. The funds would therefore be treated in the same way as other project allocations, except for one important principle - Microfund allocations would be accounted for less on the basis of the inputs provided than on the overall impact of the results. In this way, it is hoped that the flexibility, simplicity and responsiveness of the Microfund would be maintained.

VII. CONCLUSION

57. Events of the 1990s call for an evolution of the UNDP and United Nations system operations in ways which would enable member countries to direct the system's unique advantages in new, innovative directions. One of the more direct means open to UNDP for promoting human development is working with poor communities using its field network of project professionals, UNV and UNV/DDS specialists and NGOs. National IPFs, however, have rarely been given directly to poor groups because the funds are primarily used for technical assistance to strengthen government operations. The opportunity cost of giving IPF funds to poor groups

would be a reduction in the funds available for strengthening government's own capacity for national development. Thus, a Microfund consisting of additional resources earmarked only for direct micro-capital inputs to the poor would greatly expand this channel of UNDP co-operation. In addition, the existence of such a channel would provide an opportunity for its use by other donors as well. For both reasons, therefore, a UNDP Microfund would be in the interest of all member countries - donors and recipients - desiring a direct contribution towards alleviating poverty, and would result in greater cost effectiveness of the existing United Nations system.

Notes

1/ United Nations Development Programme (London, Oxford University Press). To be published in May 1990.

2/ By Jeffrey Ashe and Christopher E. Cosslett (United Nations publication, Sales No. E.89.III.B.6).

Annex

MICROFUND: VIEWS AND COMMENTS OF RESIDENT REPRESENTATIVES

Country and region	Number of projects	Sources of financing	Project: total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
1. Africa										
Angola	1	IPF	921 000	30 000	High	40 000	.. a/	20 000	Yes	
Benin	1	LDC, WFP, NGOs, Government, TUP	1 053 000	529 000	Very high	150 000	10 000	20 000	Yes	Strong Government support; 73 Micro-projects approved so far under project BEN/86/003.
Botswana	0		0	0	High	200 000	10 000	20 000	Yes	An excellent concept.
Burkina Faso	3	Africa 2000, LDC, Global	593 000	593 000	Very high	200 000	15 000	20 000	Yes	Fund should enable UNDP to intervene directly at grass-roots level where needs most felt.
Burundi	2	CDF, IPF	1 391 000	568 000	High	50 000	..	10 000	Yes	Fund would be of primary importance; a total lack of financing system for low-income groups.
Cameroon	1	IPF, PDP, Africa 2000, DDS	250 000	250 000	Very high	250 000	10 000	20 000	No	UNDP experience and field office presence can make UNDP leading institution in this new field.
Cape Verde	0		0	0	Very high	50 000	10 000	20 000	Yes	
Central African Republic	1	CDF/IPF	896 000	170 000	Very high	70 000	10 000	20 000	Yes	Government and NGO support. Would respond to needs particularly in rural areas.
Chad	2	UNIFEM, OXFAM, IPF	1 406 000	252 000	High	8 000	..	20 000	Yes	
Comoros	3	IPF, UNIFEM	..	..	Very high	20 000	..	..	..	Would support Government's programme of micro-enterprise promotion to mitigate structural adjustment impact.
Congo	0		0	0	Very high	..	10 000	25 000	Yes	Fits in with Congo five-year plan to encourage private initiatives.
Côte d'Ivoire	0		0	0	High	100 000	20 000	30 000	Yes	
Equatorial Guinea	4	CDF, LDC, UNIFEM	3 818 000	135 000	Very high	100 000	10 000	20 000	Yes	Demand low but should increase when UNDP focus shifts from institutional support to productive projects.

Country and region	Number of projects	Sources of financing	Project: total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Africa (continued)										
Gabon	0		0	0	High	60 000	10 000	20 000	Yes	
Gambia	5	IPF, CDF, UNIFEM	2 834 000	172 000	Very high	70 000	1 500	5 000	Yes	Very positive step. Small loans involve beneficiaries in productive activities.
Guinea-Bissau	1	IPF	680 000	360 000	..	100 000	5 000	20 000	Yes	
Kenya	..		..	..	Very high	500 000	10 000	20 000	Yes	Government/NGO support strong; would address complaint on lack of UNDP funds for capital/credit.
Lesotho	2	UNIFEM, DDS, bilateral donors	114 000	48 000	Very high	200 000	15 000	..	Yes	Strongly support scheme; long overdue. Will have a visible, direct and immediate impact.
Liberia	6	IPF	..	..	Very high	125 000	10 000	25 000	Yes	Would be a significant move for socio-economic development in Liberia.
Madagascar	7	IPF	6 826 000	1 052 000	Very high	100 000	..	5 000	Yes	Responds to genuine need; large informal sector needs channel to capital and employment.
Mali	8	UNIFEM, IPF, CDF, UNSO, UNHCR, PDP	..	..	Very high	2 000 000	10 000	15 000	Yes	Government and NGO would support; responds to real need which UNDP is at present unable to satisfy.
Mauritius	..		..	..	Not very high	..	6 000	..	No	Prefers using existing facilities: CDF, UNSO, PDP.
Mozambique	2	IPF, 1% Fund	240 000	108 000	Very high	100 000	5 000	10 000	Yes	Very useful and consistent with national poverty allocation strategy.
Niger	2	UNFPA, UNCDF/IPF	3 564 000	477 000	Very high	100 000	..	20 000	Yes	Very strong interest in Niger.
Nigeria	..		0	0	Very high	..	..	..	..	Very large demand. Can go a long way as catalyst to sustain SAP activities.
Sao Tome and Principe	1	IPF	35 000	35 000	Very high	150 000	3 000	25 000	..	Establishing Microfund would allow UNDP to play effective major role in promoting actions in favour of grass-roots initiatives.

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Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Africa (continued)										
Senegal	1	IPF/LDC/SPR	170 000	170 000	Very high	200 000	10 000	20 000	Yes	Will fill a gap in assisting poor communities.
Sierra Leone	5	UNFPA, IPF	..	..	Very high	300 000	3 000	25 000	No	A flexible instrument which should lead to immediate and visible results consistent with country programme objectives.
Swaziland	1	DDS	25 000	25 000	Very high	50 000	5 000	20 000	Yes	Agrees on the facility's necessity, usefulness and impact.
Togo	4	IPF, LDC, PDP	3 735 000	656 000	Very high	300 000	10 000	15 000	No	
Uganda	21	IPF, Government, SMF, CDF, ICARA II, Federal Republic of Germany	..	..	Very high	1 000 000	20 000	20 000	Yes	Interest in need for fund evidenced by project proposals currently being submitted.
United Republic of Tanzania	4	UNIFEM, Regional IPF (Africa), TUP	40 000	25 000	Very high	50 000	..	10 000	Yes	Discussions already undertaken with Government/NGOs; proposal to establish micro-capital fund an excellent idea to help fulfil unmet needs of poor.
Zaire	1	PDP	25 000	25 000	Very high	250 000	2 000	20 000	Yes	Would enable response to innumerable requests received.
Zambia	3	IPF, PDP, Japan	1 276 000	220 000	Very high	60 000	..	10 000	Yes	Strong support; would meet increased demand for self-help initiatives.
Zimbabwe	3	UNIFEM	160 000	25 000	Not very high	..	15 000	30 000	No	Delivery channels may be problematic in Zimbabwe.
Regional subtotal	95		30 052 000	5 925 000		6 953 000				
II. Arab States and Europe										
Algeria	0		0	0	Probably very high	30 000	7 000	10 000	No	Gives UNDP image down-to-earth aspect; valuable opportunity to be in contact with beneficiaries.
Bahrain	0		0	0	High	30 000	15 000	20 000	..	
Democratic Yemen	0		0	0	High	100 000	20 000	50 000	..	

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Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Arab States and Europe (continued)										
Djibouti	1	IPF	330 000	30 000	High	12 000	5 000	..	Yes	Could be useful for community development and related activities of small-scale private sector.
Iraq	0		0	0	Very high	50 000	15 000	20 000	Yes	Excellent scheme with great potential for building self-reliance, high Government interest.
Jordan	1	PDP	..	..	Very high	160 000	10 000	10 000	Yes	Microfund would enhance UNDP role in promoting integrated socio-economic development.
Lebanon	0		0	0	Very high	100 000	7 000	15 000	Yes	Endorses concept, particularly in view of its considerable impact on NGO activities.
Libyan Arab Jamahiriya	0		0	0	High	60 000	..	20 000	Yes	Would tremendously enhance UNDP field presence especially among common people.
Morocco	3	UNFDAC, IPF, PDP	..	..	High	20 000	..	10 000	Yes	Introduction opportune given Government's emphasis on decentralization and increased role for communities.
Qatar	..		..	..		..	..	..	..	If high income developing countries eligible, would assist Government to transform private sector role in development.
Romania	0		0	0	High	300 000	15 000	15 000	Yes	
Saudi Arabia	0		0	0	Not very high	100 000	20 000	..	Yes	May be difficult to implement due to UNDP limited experience with low-income groups.
Somalia	0		0	0	Very high	500 000	10 000	20 000	Yes	Excellent opportunity for financing capital components of grass-roots projects; broad based Government support.
Syrian Arab Republic	1	IPF	915 000	100 000	High	200 000	20 000	..	Yes	Would fill gap in mobilizing self-help for poor and encourage income-generating activities.
Tunisia	0		0	0	High	30 000	2 000	..	No	Potential advantage is great given gap in availability of small-scale financing.

Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Arab States and Europe (continued)										
Turkey	2	PDP, others	335 000	45 000	High	100 000	15 000	30 000	Yes	Could allow UNDP to help small-scale entrepreneurs and local technology development.
United Arab Emirates	..		..	..	..	..	..	..	..	Believes not applicable to United Arab Emirates.
Yemen	0		0	0	High	100 000	..	20 000	Yes	Additional resources welcome in principle.
Yugoslavia	0		0	0	High	400 000	15 000	20 000	Yes	Strong Government support, most appropriate for newly emerging needs.
Regional subtotal	8		1 580 000	175 000		2 292 000				
III. Asia and the Pacific										
Afghanistan	0		0	0	High	100 000	10 000	20 000	Yes	Government confirmed interest and usefulness.
Bangladesh	4	DDS, IPF/CDF, IPF	5 148 000	2 805 000	Very high	150 000	2 000	20 000	No	
Bhutan	1	UNCDF	990 000	990 000	Not very high	200 000	..	5 000	Yes	Government prefers to administer grants, and almost all rural credit needs are already covered.
Democratic People's Republic of Korea	0		0	0	Very high	50 000	10 000	20 000	Yes	High Government interest.
Fiji, Kiribati, Nauru, Solomon Islands and Tonga	1	PDP	39 000	39 000	High	200 000	3 000	10 000	No	Countries would welcome. Enables response to grass-roots proposals; source of seed capital.
India	0		0	0	Not very high	0	..	20 000	No	Proposal would require substantial adaptation for India in view of size and diversity of population.
Indonesia	4	IPF, local government, NGOs, PDP, TUP	390 000	239 000	Very high	200 000	..	20 000	Yes	Provides a much needed window to poor for self-employment and micro-enterprise development.
Iran (Islamic Republic of)	0		0	0	High	50 000	10 000	20 000	Yes	

Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Asia and the Pacific (continued)										
Lao People's Democratic Republic	8	IPF, UNCDF	9 969 000	1 273 000	Very high	200 000	..	20 000	Yes	Would help improve living standards without placing demand on Government's absorbtive capacity.
Malaysia	..		..	..	Not very high	..	..	..	..	Bilateral donors already meet credit needs.
Maldives	1	Regional IPF (Asia and the Pacific)	..	..	High	..	..	..	No	Government welcomes idea. Small-scale credit difficult to obtain through banks.
Mongolia	..		..	..	High	..	..	50 000	..	Government responded with keen interest; fund would benefit production common goods and community services.
Myanmar	..		..	..	..	..	..	..	..	Government agrees in principle; guidelines need clarifying. Foresee implementation prospects.
Nepal	2	IPF, PDP, USAID/PACT	711 000	260 000	Very high	60 000	..	20 000	Yes	DDS grants very successful generating high degree participation from low-income groups.
Pakistan	8		..	..	Very high	100 000	5 000	20 000	Yes	
Papua New Guinea	1	PDP	..	..	Very high	30 000	..	10 000	Yes	Government would welcome. Impossible for community groups to get funding non-commercial micro-level projects.
Philippines	6	IPF, UNIFEM, PDP	1 332 000	320 000	Very high	80 000	..	20 000	No	Would have far-reaching and multiplicative effect for grass-roots development.
Republic of Korea	0		0	0	Not very high	0	0	20 000	..	
Samoa, Niue, Tokelau, Cook Islands	1	PDP	22 000	21 000	Very high	100 000	4 000	10 000	Yes	An excellent idea which will address long-term need.
Sri Lanka	1	DDS, PDP, TUP, Government, Canada, New Zealand, Norway, Switzerland	105 000	105 000	Very high	..	1 500	10 000	Yes	Strong Government interest; 184 activities supported since 1983. Expansion would improve UNDP effectiveness.

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Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Asia and the Pacific (continued)										
Thailand	9	IPF, UNFDAC, UNFPA, UNICEF, UNIFEM	3 675 000	183 000	High	50 000	2 000	5 000	Yes	Could be extremely useful in promoting self-help and income-generating activities.
Viet Nam	2	UNIFEM	..	..	Very high	10 000	..	5 000	No	Could promote income generation, financial intermediation and self-reliance.
Regional subtotal	49		22 381 000	6 235 000		1 580 000				
IV. Latin America and the Caribbean										
Anguilla, Antigua and Barbuda, Barbados, British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines	0		0	0	Very high	100 000	2 000	10 000	Yes	Considerable unmet demand exists for small capital grants and loans.
Argentina	2	IPF, Government	837 000	754 000	Very high	500 000	20 000	..	Yes	High interest and demand from national and provincial governments.
Brazil	0		0	0	Very high	50 000	8 000	10 000	Yes	Could be an important mechanism to allocate funds to local initiatives.
Chile	1	UNIFEM	22 000	2 000	Very high	500 000	10 000	25 000	Yes	Would complement new Government's solidarity fund programme.
Colombia	16	IPF, SPR, Government	0	0	High	500 000	0	0	No	Would be highly welcomed if it constitutes a simple permanent multiple financial mechanism.
Cuba	..	..	..	..	..	..	..	..	..	Government considered it premature to comment prior to Governing Council debate.
Dominican Republic	1	IPF	417 000	417 000	Very high	300 000	10 000	20 000	Yes	Obvious possibilities for mobilizing important resources by using micro-investments.

Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Latin America and the Caribbean (continued)										
Ecuador	2	UNIFEM, UNDP, Netherlands and other countries	2 132 000	1 382 000	High	50 000	7 000	10 000	Yes	Would support Government commitment to socio-economic development of least favoured groups.
El Salvador	4	IPF, UNIFEM	1 741 000	285 000	Very high	50 000	..	2 000	Yes	UNDP El Salvador has successful experience with revolving fund schemes. Government enthusiastic.
Guatemala	7	IPF, PDP, TUP	..	..	High	150 000	10 000	..	Yes	Project GUA/89/011 mobilized $19 million from bilateral donors and IDB and provided access to 10,500 micro-enterprises.
Guyana	..		..	..	High	200 000	5 000	10 000	Yes	One of the most creative initiatives undertaken by UNDP. Full Government agreement.
Haiti	3	CDF, IPF, Government	1 785 000	656 000	Very high	250 000	5 000	20 000	Yes	Would be an essential complement to UNDP programme supporting NCOs and grass-roots development.
Honduras	2	IPF, Government, Netherlands	4 814 000	1 030 000	Very high	400 000	5 000	20 000	Yes	
Mexico	..		..	..	Very high	..	..	30 000	Yes	Immense possibilities; absence of small funds has been a drawback. Government supports.
Panama	1	PDP, others	50 000	27 000	Very high	..	..	30 000	Yes	
Paraguay	1	IPF	452 000	90 000	High	150 000	..	20 000	Yes	Great interest exists; could be very successful.
Peru	..		..	..	Very high	500 000	10 000	15 000	Yes	Extremely relevant for social emergency programme.
Trinidad and Tobago, Aruba, Netherlands Antilles, Suriname	0		0	0	Very high	200 000	..	20 000	Yes	

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Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Latin America and the Caribbean (continued)										
Uruguay	2	Kellogg Foundation, UNFPA	..	..	Very high	250 000	12 000	20 000	Yes	Arrangements would be very adequate with local needs.
Regional subtotal	42		12 250 000	4 643 000		4 150 000				
TOTAL	194		66 263 000	16 978 000		14 975 000	9 242	18 295		

a/ Not available.

Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfunds: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
Asia and the Pacific (continued)										
Thailand	9	IPF, UNFDAC, UNFPA, UNICEF, UNIFEM	3 675 000	183 000	High	50 000	2 000	5 000	Yes	Could be extremely useful in promoting self-help and income-generating activities.
Viet Nam	2	UNIFEM	..	..	Very high	10 000	..	5 000	No	Could promote income generation, financial intermediation and self-reliance.
Regional subtotal	49		22 381 000	6 235 000		1 580 000				
IV. Latin America and the Caribbean										
Anguilla, Antigua and Barbuda, Barbados, British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines	0		0	0	Very high	100 000	2 000	10 000	Yes	Considerable unmet demand exists for small capital grants and loans.
Argentina	2	IPF, Government	837 000	754 000	Very high	500 000	20 000	..	Yes	High interest and demand from national and provincial governments.
Brazil	0		0	0	Very high	50 000	8 000	10 000	Yes	Could be an important mechanism to allocate funds to local initiatives.
Chile	1	UNIFEM	22 000	2 000	Very high	500 000	10 000	25 000	Yes	Would complement new Government's solidarity fund programme.
Colombia	16	IPF, SPR, Government	0	0	High	500 000	0	0	No	Would be highly welcomed if it constitutes a simple permanent multiple financial mechanism.
Cuba	..	..	..	..	..	..	..	..	..	Government considered it premature to comment prior to Governing Council debate.
Dominican Republic	1	IPF	417 000	417 000	Very high	300 000	10 000	20 000	Yes	Obvious possibilities for mobilizing important resources by using micro-investments.

Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
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Guyana	..		..	..	High	200 000	5 000	10 000	Yes	One of the most creative initiatives undertaken by UNDP. Full Government agreement.
Haiti	3	CDF, IPF, Government	1 765 000	656 000	Very high	250 000	5 000	20 000	Yes	Would be an essential complement to UNDP programme supporting NGOs and grass-roots development.
Honduras	2	IPF, Government, Netherlands	4 814 000	1 030 000	Very high	400 000	5 000	20 000	Yes	
Mexico	..		..	..	Very high	..	..	30 000	Yes	Immense possibilities; absence of small funds has been a drawback. Government supports.
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Country and region	Number of projects	Sources of financing	Project total amount (in United States dollars)	Microfund: total amount (in United States dollars)	Level of potential interest	Level of funding: 12 months (in United States dollars)	Average size per project (in United States dollars)	Maximum size per project (in United States dollars)	Staff available	Comments
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TOTAL	194		66 263 000	16 978 000		14 975 000	9 242	18 295		

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PROGRAMME IMPLEMENTATION

IMPLEMENTATION OF DECISIONS ADOPTED BY THE GOVERNING COUNCIL AT PREVIOUS SESSIONS

PROMOTION OF NATIONAL CAPACITY: HIGHLY QUALIFIED STAFF

Incentives and other supplementary payments to government staff

Report of the Administrator

SUMMARY

The present report responds to Governing Council decision 89/22 of 30 June 1989, which requests the Administrator to outline possible options based on UNDP experience which would enable recipient Governments to respond better to the various difficulties they were facing in attracting and retaining highly qualified staff in government administration.

The report analyses the difficulties which many poorer countries are facing in providing adequate civil service salaries. This has led to the practice of donors paying salary supplements or incentive to government staff employed on projects. The report concludes that, in the longer run, this is detrimental to the Governments' own development efforts.

As requested by the Council, the report presents three options for dealing with this difficult problem. The first is to maintain and strengthen the existing UNDP policy of payments to project counterparts - an option which appears restrictive in relation to the known practice of some donors. The second option presents a somewhat liberalized version of the first approach. The third is a

completely different approach which could be applied concomitantly, and which seeks to centralize any external payments to government staff through a government programme as part of administrative reform. This alternative is based on the involvement of other donors in its financing.

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Incentives and other supplementary payments to government staff

I. INTRODUCTION

1. The Governing Council, in decision 89/22 of 30 June 1989, requested the Administrator to outline possible options based on United Nations Development Programme (UNDP) experience which would enable recipient countries to respond better to the serious difficulties they were facing in attracting and retaining highly qualified staff in government administration.

2. This decision is based on a suggestion made during the discussion of the Administrator's proposal to introduce a Development Support Service. At the time, a modification of that proposal was suggested, which would allow UNDP funds to be used to provide incentives by way of salary supplements in kind or in cash for key government personnel engaged in the formulation and implementation of policy reforms and programmes. It was furthermore suggested that such a scheme could be introduced as a pilot programme in the first instance, to be extended only after its usefulness had been demonstrated.

3. The Administrator has reviewed the experience within UNDP and other United Nations and multilateral organizations concerning the payment of incentives and salary supplements to national staff on development projects. This subject was also discussed with both donor and recipients countries to benefit from their experience and views.

4. The results of this review are presented in chapter III, where three methods of making payments to government staff are presented for the Council's review. The first approach is currently in use by UNDP while the other two are being actively considered.

II. THE PROBLEM

5. In poorer developing countries that are experiencing economic austerity, one effect of budgetary constraints is that it is becoming increasingly difficult to provide the essential support to development projects. This has led to a situation where, in countries seen as needing foreign assistance the most, externally funded development projects often cannot be implemented with the necessary involvement of the Government through counterpart support.

6. As a result, there has been considerable discussion among donors and recipients on how to find satisfactory solutions. A view often expressed in these discussions is that the inability of some recipient countries to provide support to externally funded development projects is not the issue to be tackled since it is but a symptom of a more deep-rooted imbalance. The real problem is the donor-driven proliferation of projects competing for scarce indigenous material and human resources. This opens up a broad range of issues that the international community, particularly the Governing Council, has on its agenda, such as the co-ordination of external aid; the premise that donor-driven technical co-operation

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should give way to recipient-led programming; and the wider debate of the usefulness of the project approach in foreign aid.

7. This report concentrates on the more immediate problem of finding ways to assist host Governments in meeting the essential costs necessary to implement development projects while minimizing the dependence associated with payment of government salaries by foreign aid donors.

8. When the host Government is unable to provide sufficient local support to projects, the viability and sustainability of these projects is brought into question. From this point of view, it is useful to distinguish between recurring and non-recurring local costs. UNDP has found it easier to find solutions in meeting non-recurring local costs of projects, such as premises, office and transportation equipment, which, although they are funded from external sources, do not necessarily bring into question the sustainability of the projects involved.

9. When, on the other hand, the question of recurring costs is addressed, it is difficult to find acceptable solutions. If an external donor finances operating costs such as petrol and utilities, these can only be short-term, stop-gap arrangements to bolster the activities of projects only for the duration of external assistance.

10. Moreover, if the external financing of another category of recurring costs are considered, i.e., salaries of government employees, the impact of support can often become self-defeating as it does not promote sustainable development nor self-reliance. The issue, however, is not always so straightforward. While many donors and recipients have firmly argued against such payments for the reasons that they create distortions in the national payment schemes, make for disincentive effects and lead to increased dependency, some have felt that they are unavoidable in certain exceptional circumstances.

11. A number of developing countries are facing serious crises in that they are unable to maintain adequate salaries for their civil servants. Over the last 10 years, the average salaries for government employees have seen considerable declines in countries in Africa and in Latin America and the Caribbean. This trend has led to a large exodus of qualified nationals from the civil service either to the private sector or through emigration. The resulting crisis has led to widespread inefficiency, incompetence and corruption, which now threaten the basic functions of Governments in many countries.

12. Donors and host Governments in such situations are faced with a dilemma. While the refusal of donors to meet the costs of counterparts where government salaries are below subsistence is detrimental to the development effort, at least in the short run, the payment of salary supplements to government employees introduces a dependence on foreign aid which is detrimental to sustainability and institution-building. Donors, while realizing the pitfalls, are increasingly paying incentives or salary supplements to government employees on an ad hoc basis as part of specific arrangements for project implementation. There is increasing pressure for UNDP to do the same and, although policy in this regard is restrictive, exceptions are being made.

13. In such situations where government services and administration are breaking down, technical co-operation takes on a different role by, in effect, substituting for the Government's operational budget. This it does in one of two ways:

(a) Indirectly by providing experts who in fact carry out operational tasks normally the responsibility of government employees rather than provide on-the-job training (studies have been carried out that indicate that this has been taking place. From experience on individual UNDP projects this seems to be happening with international experts, but especially with the rapidly growing category of national experts. In practically all cases, they are not recruited as operational assistance OPAS experts.);

(b) Directly, by payments to government staff on projects.

In both cases, this support to the government budget remains hidden because it is not explicitly acknowledged as being a real component of the technical co-operation being provided.

14. By having this de facto budgetary support to Governments remain obfuscated in technical co-operation activities, a disservice is done to the governments' development efforts in two ways. First, by lowering the effectiveness of technical co-operation as a medium for technology transfer and training, and secondly, perhaps more importantly, by making this budgetary support extremely costly. A lot of the jobs being done by experts could be done by qualified nationals at a fraction of the cost, were the Government able to attract them and pay them.

15. The more direct approach of paying salary supplements to government staff on projects is seen as a lesser evil by donors since it at least provides viability to priority development projects that could otherwise not be undertaken in the circumstances. Nevertheless, such arrangements have serious disadvantages that cannot be ignored. Some of these have already been mentioned: weakened sustainability and the impossibility of building or strengthening institutions.

16. A serious drawback of this approach is the resulting dependence of government project staff on external donors. Often, the salary supplements are administered by the foreign experts on the project. Under such circumstances, these experts become in effect employers of the counterparts. This makes for a different relationship between government officials and their foreign advisors than was originally intended and further weakens technical co-operation. In a sense, this turns technical co-operation on its head.

17. Many other difficulties with this approach have been noted. To mention a few:

(a) A competition among donors for scarce competent personnel available locally, in some cases leading to veritable bidding wars;

(b) The creation of an environment where vested interests by local staff emerge which tend to prolong the time-span of projects as much as possible;

(c) The difficulty in establishing criteria for incentive payments with the resulting disillusionment and alienation of government staff who do not receive payments.

III. ALTERNATIVE APPROACHES

18. A number of countries have initiated civil service reform. However, in the short term there does not seem to be a satisfactory solution to this problem. Salary supplements to government staff distorts technical co-operation; on the other hand, if nothing is done to provide adequate remuneration to government staff on projects in countries where the Government is unable to pay sufficient salaries, project implementation is severely hampered to the point of making projects not viable.

19. This dilemma was very much kept in mind when possible approaches to this issue were considered. Three alternative approaches are presented below, with a short analysis of the advantages and drawbacks of each. The first approach, which represents the current policy of UNDP, allows for payments to government staff at the project level only in very limited circumstances; the second relaxes some of the constraints of existing policy and is more systematic in that it differentiates between different ways of providing payments at project level; the third alternative provides for a transparent programme-level approach involving central government authorities and the wider donor community.

A. Alternative 1: Maintain and enforce existing UNDP policy

20. Existing policy (contained in section 3040 of the Programme and Project Manual) provides for a special compensation to be paid to government project personnel for a period not exceeding six months. The Administrator may approve special compensation to government project personnel for periods exceeding six months if the Government provides an explicit agreement to take over this payment at a definite date. Such arrangements favour least developed countries (LDCs) and "as if" LDCs.

Advantages

21. This rather restrictive policy of paying special compensation to government project personnel was arrived at after UNDP experience of abuse of a more liberal system of payments to counterpart staff on projects. Although the policy is restrictive in relation to what some of the other donors are practicing, it does take into consideration hardships that may be faced by recipient countries, especially LDCs and "as if" LDCs and allows for special compensation arrangements to exist for periods exceeding six months. The main condition is a firm undertaking by a Government to take over such payments and the clear understanding that UNDP payments are an interim measure.

Drawbacks

22. The experience of the resident representatives in a number of countries shows that the existing policy does not allow UNDP to provide special compensation to government project personnel in many of the most difficult cases. The main reason for this is that, given the extreme budgetary stringency that these countries face, it is not realistic to expect to obtain a firm commitment from the Government to increase the salaries of government staff in the short to medium term.

23. In such circumstances, UNDP is left with the option of either not undertaking projects where government staff cannot be provided to work full-time or find other ad hoc solutions which would circumvent the existing restrictive policy. This could be by having the experts act de facto, if not in name, as OPAS experts. There are instances where the national expert modality has been used to hire nationals to function as de facto counterparts. The growth of this modality world wide could at least partially be explained by this (see para. 13 (a)).

24. A further serious drawback of this alternative is that there is no transparency for these payments. Each donor makes similar arrangements, all at the project level. It is difficult to monitor the extent and the duration of these arrangements. To that extent they remain hidden, projects tend to get extended and new projects get approved with the same arrangements. Thus, these arrangements gradually become institutionalized, and dampen the urgency of searching for more permanent solutions.

B. Alternative 2: Liberalize the existing policy on special compensation to government project personnel

25. The basic policy should remain that salary supplements and incentives are the obligation of the host Government or institution and may be charged to the UNDP budget only in exceptional cases. In the exceptional cases where UNDP could provide such payments, the payments would be provided for the duration of the project rather than for the six months of the present arrangement.

26. These more liberal rules would apply only to poorer countries where it could be shown that failure to provide supplementary payments to government staff would seriously hamper the start up or effective operation of projects in the country concerned. In addition, it should be shown that there is an acute lack of government resources to provide for such payments either from the normal administrative or development budget, from commodity aid or from other sources available to the Government. Furthermore, it should be shown that alternative project implementation strategies which reduce or eliminate reliance on government inputs and/or counterparts, such as the use of local non-governmental organizations (NGOs) as host country implementing agencies, have been fully considered and are not available.

27. If the above pre-conditions exist, then UNDP project resources could be considered for payments to local project personnel in accordance with the following guidelines:

(a) Incentives should preferably be in the form of in-kind benefits such as housing, training, travel and transport. Cash payments would require specific justification, including showing why in-kind benefits alone would not work;

(b) In cases where cash payments are approved, a distinction needs to be made between direct support projects (such as surveys and exploration projects) and institution-building projects. For institution-building projects, Governments would have to undertake an obligation progressively to take over the payments of benefits during the life of the project. This obligation should in turn be reflected as a specific prerequisite in the project document;

(c) In all cases, a definite schedule of benefits agreed to by the Government must be established and attached as an annex to the project document. This schedule should reflect the additional government obligation in cases where cash payments are being made on institution-building projects mentioned in (b) above;

(d) Such a schedule would be reviewed and adjusted every 12 months as part of the tripartite review;

(e) Under no circumstances should incentives continue to be paid by UNDP beyond the end of the project.

28. It is suggested as a matter of procedure that once the pre-conditions suggested in paragraph 26 are satisfied, the further consideration of the design and content of incentive arrangements to be paid from UNDP project budgets be considered as part and parcel of the normal appraisal of the project, using the guidelines suggested in paragraph 27.

Advantages

29. The advantage of this proposal is that it clarifies the existing policy by setting out criteria and conditions in more specific terms. It also liberalizes the procedure by making supplements available over the life of the project. The adoption of this approach would make it easier to negotiate with the Governments the provision of remuneration to government staff on projects and could provide a basis for a more co-ordinated approach by all aid donors working in the same environment.

Drawbacks

30. This proposal, by liberalizing existing UNDP procedure, would be more open to abuse than the present policy. It would also mean that UNDP would be more actively entering into competition with other donors for scarce counterpart staff on projects, with all that this entails (see paras. 16 and 17 above).

31. The lack of transparency mentioned as a drawback in Alternative 1 (para. 24 above) applies to a somewhat lesser degree to this proposal.

C. Alternative 3: Extrabudgetary resources for development activities

32. UNDP is also considering a completely different approach to the whole question, by tackling it at a country or programme level rather than at the project level. The approach is based on the following broad principles.

1. Applicability

33. The scheme would be applicable only to poorer countries that are unable to provide adequate civil service salaries, to the point where development programmes are brought into question. Furthermore, the scheme could be applied only in conjunction with longer-term measures to reform public administration, especially civil service reform. It would provide more immediate, stop-gap, measures intended to strengthen the reform process.

2. Centralization

34. Payment of local costs, including salary supplements to government employees, should be removed from the project level. Funds provided for this purpose from various donors would be pooled and the terms and conditions under which they would be provided would be negotiated centrally with the Government.

3. Modality

35. The modality for providing this pool of external resources for government extrabudgetary expenditure on development projects could be under a UNDP programme. UNDP would assist the Government in administering these funds through a programme financed under a multiple third-party cost-sharing arrangement. The extent to which indicative planning figure (IPF) funds could be used for such activities must be decided.

4. Approval and co-ordination

36. The programme of extrabudgetary resources for development activities should be agreed upon by Consultative Group meetings and in round-table conferences in countries where they exist or in other aid co-ordination meetings at which the recipient Government participates. The approval would be based on a specific proposal, presented by the Government, for incentive payments to selected government staff as part of its administrative reform programme. The proposal should be shown as having a direct impact on the countries development programmes and projects and should be for a limited duration.

5. Methodology

37. The proposal for a programme of extrabudgetary resources for development activities can be contained in the paper on technical co-operation that UNDP presents to the Consultative Group meetings and round-table conferences or other aid co-ordination forums. It is initiated by the recipient country which requests UNDP to pay salary supplements to government employees. UNDP explores with the Government and the donors the acceptability of a scheme under the broad approach described above, especially as relates to the existence of a viable programme of reform. If the approach is found to be acceptable to all concerned, arrangements are worked out and a detailed and specific proposal is put forth. The programme should contain provisions for regular monitoring and periodic review by the recipient Government and by donors.

Advantages

38. By taking this initiative, UNDP hopes to resolve a formidable obstacle to foreign aid - one of which both recipient and donor Governments are very much aware. In that respect, it is hoped that the initiative will receive wide support, allowing UNDP to play a more pronounced co-ordinating role, already advocated by both recipients and donors.

39. By removing payments to government project personnel from the level of the project and centralizing them with the Government and making the Government ultimately responsible for such payments, a number of associated problems would be resolved. First, the whole issue of donor payments of government salaries and their extent and duration would become more transparent. These would be an object of scrutiny both by the government authorities and the Consultative Group meetings on round-table conferences. Since such arrangements would be temporary and contingent on civil service reform, they would, it was hoped, lead to more concerted efforts to find longer-term, more acceptable solutions. Second, the linkages of external assistance with supplementary payments of government project personnel would be less direct and thus the perceived dependency of government officials for their livelihood on external experts would diminish.

40. Another advantage of this approach is that it can be limited to individual, carefully selected poorer countries, where such solutions will be of benefit in the long run by encouraging and supporting reform.

Drawbacks

41. Vigilance must be exercised to ensure that these pooled external extrabudgetary resources are used to solve problems directly related to identified high-priority development programmes. Strict scrutiny on the use of these funds and even control over expenditure would therefore have to be maintained by the Government, assisted by UNDP and a management or steering committee set up for that purpose.

42. Another difficulty may be that Governments, because of their administrative procedure, would not find it possible to pay salary supplements to some of its

staff on a selective basis. To overcome this difficulty, arrangements could be made for UNDP to pay on behalf of the Government, as it already does on some government-executed projects. Again, this would not be a completely satisfactory solution, but would none the less be an improvement on the present arrangement of payments made at the project level.

IV. CONCLUSION

43. Alternative 1 would maintain the existing policy under which UNDP provides payments to government staff on projects. Alternative 2 is a proposal to liberalize the criteria of the existing policy. Alterative 3, on the other hand, proposes a complete departure from the existing approach. A choice needs to be made between the first two alternatives while the third could exist concomitantly, to be applied very selectively in a limited number of poorer countries undertaking administrative reform. As is evident, wherever the third alternative is applied, payments at the project level would no longer be allowed. Also, this scheme presupposes that resources from other donors can be mobilized for its financing.

44. The Administrator considers that the third alternative approach to incentive payments deserves attention and support.

45. A programme of extrabudgetary resources for developmental activities would be closely associated with the national technical co-operation assessment and programmes (NaTCAP) exercises and would form part of the round-table process and the consultative group meetings. Financing would be provided by the donors participating in the round tables or consultative group meetings through a multi third-party cost-sharing arrangement with some commitment of IPF funds.

46. The scheme described above presents but a general framework within which recipient Governments could negotiate with donors a more equitable and effective system that would assist them in overcoming some of the immediate difficulties in carrying forward their administrative reforms. In this sense, it represents a financing modality for an incentive scheme that would be elaborated by and negotiated with individual recipient countries. UNDP has initiated such discussions in two countries, Ghana and Uganda, which have shown considerable interest in this approach. The results of these discussions will be reported to the Council.

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PROGRAMME IMPLEMENTATION

IMPLEMENTATION OF DECISIONS ADOPTED BY THE GOVERNING COUNCIL AT ITS PREVIOUS SESSIONS

Management Development Programme

Report of the Administrator

SUMMARY

The Governing Council, at its thirty-sixth session, requested the Administrator to report to the Council at its thirty-seventh session on the implementation of the Management Development Programme (MDP) (decision 89/39).

The operational activities of MDP began towards the end of 1988 and the present report covers the period up to 1 February 1990. By that time more than 60 Governments had requested support from UNDP under MDP. Sixteen country projects had been approved.

Governing Council decisions. Guidelines for MDP

1. At its thirty-sixth session the Governing Council requested the Administrator to report to the Council at its thirty-seventh session (1990) on the implementation of the Management Development Programme (MDP) (decision 89/39). The present report is submitted in response to that request.

2. MDP was established by the Governing Council on 1 July 1988 (decision 88/31 A, para. 10). Preliminary guidelines for MDP were presented to the Governing Council at its meeting in February 1989. On the basis of the discussion at that session, they were revised and submitted to the Council at its thirty-sixth session in June 1989. In decision 89/39 the Council took note of the revised guidelines (DP/1989/59) and requested the Administrator to continue his efforts to implement MDP on the basis of decision 88/31.

Implementation of MDP

3. The operational activities of MDP began towards the end of 1988. Thus the present report on the implementation of MDP covering the period up to 1 February 1990 provides information on what has been achieved during slightly more than one year's operations.

4. By 1 February 1990, more than 60 Governments had requested support from the United Nations Development Programme (UNDP) under MDP. Reconnaissance and/or programming missions had been undertaken to 44 countries. 1/ Three other countries received planning missions under the Special Action Programme for Administration and Management (SAPAM) during the same period. Sixteen country projects had been approved (see table 1). The total MDP contribution to the approved projects was $16.3 million. Including contributions from IPF, the total value of the projects was $23.1 million.

5. In line with the principle laid down by the Governing Council that there would be a fair regional balance in administering the funds available under the programme and that no more than 50 per cent of the resources would be allocated to programmes in one region, the Administrator has made a tentative allocation of funds per region as presented in table 2. The table also contains information about the regional distribution of commitments for approved projects. Out of the uncommitted funds of $37.2 million, around $12 million worth of projects was programmed by 1 February 1990. The remainder has been earmarked for other programmes under development.

6. The guidelines for MDP offer a wide choice of specific areas for intervention with a view to strengthening management capacity and improving efficiency and effectiveness in the public sector. The actual focus of each programme will depend on the priorities of Government and needs assessments. In the case of the approved projects it is mainly the following areas which receive attention:

(a) Streamlining of government machinery, including creation or strengthening of institutions for administrative reform and units for information management and organizations and methods;

Table 1. Countries with approved MDP-supported projects

Country	MDP contribution $	IPF contribution $
Argentina	750 000	
Bolivia	1 750 000	
Cape Verde	418 000	
Ecuador	705 000	
Guinea	1 000 000	1 371 000
Guinea-Bissau	1 000 000	659 084
Guyana	1 300 000	
Jordan	788 600	
Madagascar	1 000 000	4 000 000
Maldives	550 000	446 998
Mongolia	1 400 000	300 000
Myanmar	1 215 000	
Tunisia	900 000	
Uganda	1 299 488	
Uruguay	521 900	
Viet Nam	1 695 000	
Total	16 292 988	6 777 082

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Table 2. Regional distribution of project funds

	Allocations			Commitment by 1 February 1990	
	$	Percentage		$	Percentage
RBA	24 500 000	46.5	RBA	4 718 000	29
RBAP	12 500 000	23.5	RBAP	4 815 000	30
RBASE	8 250 000	15	RBASE	1 700 000	10
RBLAC	8 250 000	15	RBLAC	5 027 000	31
Total project funds	53 500 000	100		16 260 000	100

(b) Civil service reform, including issues of remuneration;

(c) Human resources management, including personnel management and management education and training;

(d) Financial management;

(e) Strengthening capacity for macro-economic analysis and policy formulation;

(f) Decentralization and local government;

(g) Enhancing institutional capacity for interface with public enterprises and the private sector.

7. The responsibility for the execution of the approved projects is as follows:

Execution	No. of projects
Government	2
Office for Project Services (OPS)	9
Department of Technical Co-operation for Development (DTCD)	4
International Labour Organisation (ILO)	1
Total	16

Specialized agencies are associated with several of the government or OPS-executed projects. Sub-contracts with non-United Nations institutions will be the form of execution for parts of some projects.

8. The experts used by MDP for studies and missions have been recruited both internationally and nationally. Desk-studies have in many cases been written by national experts and national experts have, as a rule, been associated with the work of the missions. Only a minor part of the internationally recruited experts had previously undertaken missions for UNDP, which suggests that MDP is reaching a new talent pool. The leaders of missions have generally been very senior experts, sometimes with previous or present high positions in national or international organizations. Several of the experts combine experience from the private sector with long experience of the country of assignment and/or other developing countries.

Modes of operation

9. On the part of UNDP, the regional bureaux and the resident representatives have the main operational responsibility for MDP. The bureaux co-operate closely with the Support Unit in the Bureau for Programme Policy and Evaluation (BPPE), which was established towards the end of 1988 and which became operational during 1989. This Unit has the overall responsibility for the programme and provides professional support for its implementation. OPS is also closely associated with the establishment of missions and the recruitment of experts.

10. Preparation of programmes is initiated only at the request of Governments. The steps judged necessary for the development of programmes have normally been the following:

(a) A desk-study on the management situation in the public sector of the country, its bottle-necks, the policy of the Government for management improvement and measures undertaken to implement the policy, including externally supported activities;

(b) A reconnaissance mission with the task to explore with the Government priority areas of management improvement and the Government's policy and organization for dealing with them, to discuss a strategy for MDP intervention and, if a programming mission is agreed upon, to discuss the terms of reference for such a mission;

(c) A programming mission of 3-4 experts with the task of developing a programme for management improvement in the priority areas agreed with the Government, and normally a project/projects for MDP financing.

While this has developed into a standard approach, it has seen many variations during the life of the programme. Often the desk-study and the reconnaissance have been a combined task. Reconnaissance missions may also have proposed some other approach than a programming mission. Sometimes decisions about support for broad-based management development programmes have been possible without missions, because UNDP has had the necessary overview of the situation from previous studies

and ongoing project activities. Generally speaking, efforts have been made to adjust the preparation of support for government programmes to the circumstances in each case.

11. The interventions of MDP have been co-ordinated with other UNDP activities in the countries concerned. Co-ordination has been particularly needed in the African region, where there are several related programme initiatives. The rule has been not to send MDP missions to countries co-operating with SAPAM, as this programme has a mandate similar to MDP. Instead, projects emanating from missions undertaken under the SAPAM programme have been considered for MDP financing as in the case of a project for Cape Verde. MDP financing is also foreseen for a project in Lesotho proposed by a SAPAM mission. Previous SAPAM missions and their analysis have further been taken into account when defining the preparations required for MDP interventions. Similarly, there has been a close co-ordination with the National Technical Co-operation Assessment and Programmes (NATCAPs). As an example, a NATCAP mission visiting Ethiopia undertook the reconnaissance work needed for MDP.

12. Co-ordination with other donors is necessary for the definition of the role of MDP in individual countries. A major function of the desk-studies is to register the contributions from other external sources as an input into the preparation of the MDP mission. In connection with the planning of MDP interventions, UNDP has often co-operated with specialized agencies and multilateral financial institutions. On one occasion there has been a joint mission with the Economic Development Institute (EDI) of the World Bank. Parallel missions with the World Bank have occurred.

13. MDP programmes are subject to the same quality criteria as other UNDP activities. They are considered by the Project Appraisal Committees (PAC) of the regional bureaux and approved in the Action Committee. Particular attention has been paid to the following aspects of the proposed activities:

(a) The availability of a broad needs analysis;

(b) The existence of a policy framework for management improvement and high-level political commitment to the implementation of such a policy;

(c) The strategic significance of the project and the likelihood of its making a major impact;

(d) The institutional anchoring of the project, its linkages to mutually supportive activities and other factors increasing the prospects for sustainability of efforts, including twinning arrangements with appropriate institutions;

(e) Other indicators of the likelihood of the internalization of project activities;

(f) The extent to which the resources of MDP can be deployed as seed money.

While UNDP normally approves funds on the basis of fully developed project documents, decisions about MDP support have in some cases been taken on the basis of programmes as approved by Governments on the basis of mission reports before discrete projects have been finalized. For UNDP this has been a way of underlining the programme approach applied in the case of MDP.

14. The programme will be available to all countries wishing to participate. In order to reconcile this principle with UNDP's priority concern for low-income countries, particularly the least developed countries (LDCs), the following line of action has been chosen: all countries requesting support have been given help with needs assessments and the preparation of programmes, while project funds have been distributed with a clear bias in favour of low-income countries. Middle-income countries have sometimes received no funds for projects or only small amounts.

15. Monitoring will be an important part of the role of UNDP in the implementation of MDP. With regard to programme level monitoring, the aim is an understanding with the Government that there will be an ongoing dialogue over the implementation of the national management development programme. This would give the framework for the advisory role performed by senior UNDP advisers. For the monitoring of projects, the regular UNDP arrangements for tripartite reviews, etc. are sometimes being strengthened in the case of MDP projects in order for UNDP to follow closely the implementation and making it easier to draw lessons of relevance for project activities in other countries.

Experience gained

16. During the operation of the programme, UNDP has already gained some valuable experience. The following should be highlighted at this stage:

(a) The establishment of MDP has allowed UNDP to increase support of Governments undertaking major administrative reforms. The planning capacity of UNDP has been strengthened in the field of public sector management. The programme has also improved the ability of UNDP to participate in a dialogue with Governments concerning ways to strengthen public management and to provide high-level advice on management development to Governments asking for such advice;

(b) The experience of UNDP with the approach of MDP has by and large been positive. What is needed to improve the performance of the public sector is normally a programme with a clear strategy for priority interventions, based on a comprehensive overview. UNDP should, therefore, continue its advocacy of a comprehensive and strategic approach to management improvement. This is all the more appropriate considering resolution 44/211 on operational activities for development adopted by the General Assembly on 22 December 1989, with its general recommendation for a programme approach in development co-operation;

(c) While the priority in programme development has so far been to meet requests for support from individual Governments, attention should now also be devoted to developments in two other directions:

(i) Questions of improved methodology should be given increased attention. MDP should focus on issues of sustainability and the internalization of the process of change;

(ii) MDP should also identify key questions for management improvement where there is a need to encourage new constructive approaches. Examples are civil service reform, including questions of remuneration and improved productivity in public service, and alternatives to central government responsibility for the provision of public services such as decentralization to local government or privatization;

(d) Have the funds of MDP succeeded in functioning as seed money? The question has several aspects. The role of the programme as a whole in working as a catalyst to attract additional resources from bilateral donors will be treated in paragraph 18. At the country level, the issue relates to the ability of the Government to raise funds from other sources for an agreed programme. The MDP contribution takes two forms: help with needs assessments, programme development and project identification; and financing of projects forming part of management development programmes. Pending further experience, the following comments can be made at this stage:

(i) There is so far only one clear-cut example of successful fund-raising for a management development programme worked out with the support of MDP. That is Guyana, where a combined MDP/technical assistance mission helped to develop a programme, to which Government has received pledges of $22 million;

(ii) In the case of several countries with approved projects like Argentina, Bolivia, Maldives, Tunisia, Uganda and Uruguay, there have been promising discussions with other donors. This is also the case with countries where programmes are under development. The prospects for financing of activities following an initial MDP-supported project also seem promising;

(iii) Seeing the MDP contribution as a basis for support from other donors to a country's administrative reform efforts will have the added advantages of strengthening a Government's control and co-ordination of assistance to central government functions. This is fully in line with other UNDP efforts to strengthen aid co-ordination by Governments;

(e) It is worth noting that MDP funds have in several cases been combined with funds from the indicative planning figure (IPF). In some instances, MDP funds have been contributed to projects originally intended for IPF financing which have satisfied MDP criteria. Other times, Governments and resident representatives have agreed to allocate IPF resources to MDP-developed programmes when the prospects for immediate funds from other donors have been considered non-existent. The experience so far shows that MDP has the potential for contributing to the planning of IPF resources. This role for MDP could be of particular interest for the programming of the fifth cycle.

Financial requirements of MDP

17. Out of the total allocation of $60 million for MDP, the amount of $6.5 million is needed for missions and other measures for the preparation of programmes and the financing of the MDP Support Unit in BPPE. Out of the remaining $53.5 million, $16.3 million has been committed for 16 projects, while the remainder of the funds are needed for programmes being developed at present. Considering the number of such programmes, available funds for new activities will be sufficient only if the average MDP contribution per country is reduced below the figure of $1 million or if the number of new programmes to be assisted will be linked to the availability of funds. So far a reduction of the allocation has already been applied in the case of some programmes.

18. During the course of the debates on MDP in 1988 and 1989, the Administrator indicated that the initial earmarking authorized by the Governing Council in decision 88/31 should serve primarily as seed money. As the programme reached an advanced implementation stage and, at the same time became more widely recognized, it was expected that it would demonstrate the viability of an enhanced level of activity in this important domain. During the first 18 months since its inception, UNDP efforts were focused on the launching of the programme to ensure that its main objectives as described in this documentation would indeed be achieved. Currently only a part of the resources available to MDP has been formally committed, but the pace is expected to increase. Recent discussions on the subject have demonstrated substantial support to the programme from both recipient and donor countries. It is obvious that irrespective of the level of the Special Programme Resources (SPR) earmarking for the fifth cycle, a substantial amount of funds will be required to help ensure an impact on the development process by tackling key management issues. Beginning in the second half of 1990, UNDP will initiate contacts with various donor Governments to encourage contributions either to a trust fund or to cost-sharing arrangements. The Administrator hopes that with the demonstration of good progress in the current programmes, the response to the search for additional resources will be positive. The results will be reported to the Council at its thirty-eighth session in June 1991.

Notes

1/ Countries with programmes under preparation or consideration by 1 February 1990:

(a) Regional Bureau for Africa: Angola, Burkina Faso, Cameroon, Comoros, Congo, Côte d'Ivoire, Ethiopia, Gabon, Gambia, Kenya*, Lesotho*, Malawi, Mauritania, Niger, Sao Tome and Principe, Togo, United Republic of Tanzania and Zambia;

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* Countries which received SAPAM missions during 1989.

Notes (continued)

(b) Regional Bureau for Arab States and Europe: Democratic Yemen, Egypt, Hungary, Iraq, Malta, Oman, Poland, Qatar, Somalia, Turkey, Yemen and Yugoslavia;

(c) Regional Bureau for Asia and the Pacific: Bangladesh, Bhutan, Cook Islands, Democratic People's Republic of Korea, Fiji, Indonesia, Lao People's Democratic Republic, Papua New Guinea, Philippines, Thailand and Western Samoa;

(d) Regional Bureau for Latin America and the Caribbean: Colombia, Eastern Caribbean Islands, Haiti, Honduras, Paraguay and Venezuela.